World Bank Success Story: Lights Out In Colombia

COLOMBIA

Colombia has long been considered the World Bank's "success model" for Latin America and the Third World. So successful has this experimental case been that the country's two leading cities — Medellin and Cali — are now being subjected to water and electricity cutoffs for up to 12 hours per day. Gastroenteritis cases have sharply increased even in the industrial centers, and dramatic shortages of everything from rice to chocolate to toilet paper are now a fact of life throughout Colombia.

The current collapse of the Colombian national economy, complete with intensive decapitalization and Fourth World epidemics, is the predictable outcome of more than a decade of deliberate primitive accumulation under the dictates of the World Bank. Under the rubric of "export-orientation," Colombia is looting its own rich natural resources and labor power to guarantee payment of its foreign debt.

In 1967, the Colombian government under Carlos Lleras Restrepo passed into law a World Bank "suggestion" that the Colombian peso, which until then had operated on a fixed parity with the U.S. dollar, be allowed to float freely. As a result, the peso to dollar exchange rate was pegged to the domestic cost-of-living index, effectively instituting a system of continuous devaluation of the peso (see Graph 1).

This government decree, the "launching pad of Colombia's success story," according to a Citibank survey of the Colombian economy, has over the last decade succeeded in aborting Colombia's budding industrial potential while reshaping the economy on a strictly export-oriented agricultural basis. The constantly-rising exchange rate has meant a significant expansion of Colombia's agricultural production for export under the incentive of a high peso return on the export dollar, while imports of capital goods have been reduced to a costly trickle. The ten-year stagnation of the industrial sector as a percentage of the entire economy has been the result (See Table 1).

Even more significant is the fact that, for Colombia's agriculture sector, the prohibitive imports market forced a growing reliance on feudal, labor-intensive methods of production, while making fertilizer, modern irrigation systems, etc., increasingly inaccessible. The lack of adequate technological input into Colombia's program of intense exploitation of the land inevitably led to a grave crisis in production on all fronts.

This policy of primitive accumulation has claimed the country's industrial and energy-producing infrastructure as its first victim. Many of Colombia's key industries are today operating at 50 percent of capacity or less, unable to renovate, much less expand, installed capital and technology because of the high cost of imports and the lack of available credit. Colombia's vast coal reserves have gone untapped, substantial uranium reserves for the development of nuclear energy are untouched, and ambitious plans for the expansion of Colombia's hydroelectric power grid have stalled for lack of investment. World Bank dictates have forced the channeling of all available funds into Colombia's export and subsistence agriculture.

The effects of this "cannibalization" of Colombia's human and natural resources are revealed today in a crisis of unprecedented proportions. An unusually severe drought during the last nine months has triggered a holocaust of food shortages, epidemics and industry shutdowns due to draconian rationing of available electric power. Colombia's deteriorated urban centers — themselves the victims of a policy of deliberate financial triage which has forced the collapse of health and education facilities and paralyzed basic social services — have been hardest hit. Colombia's four largest industrial centers — Medellin, Cali, Bogotá and Barranquilla — are exemplary:

Medellin

The local government of Medellin has imposed a brutal regimen on this city of over one million people. Elec-

Graph 1 — Peso/Dollar Exchange Rate & WPI

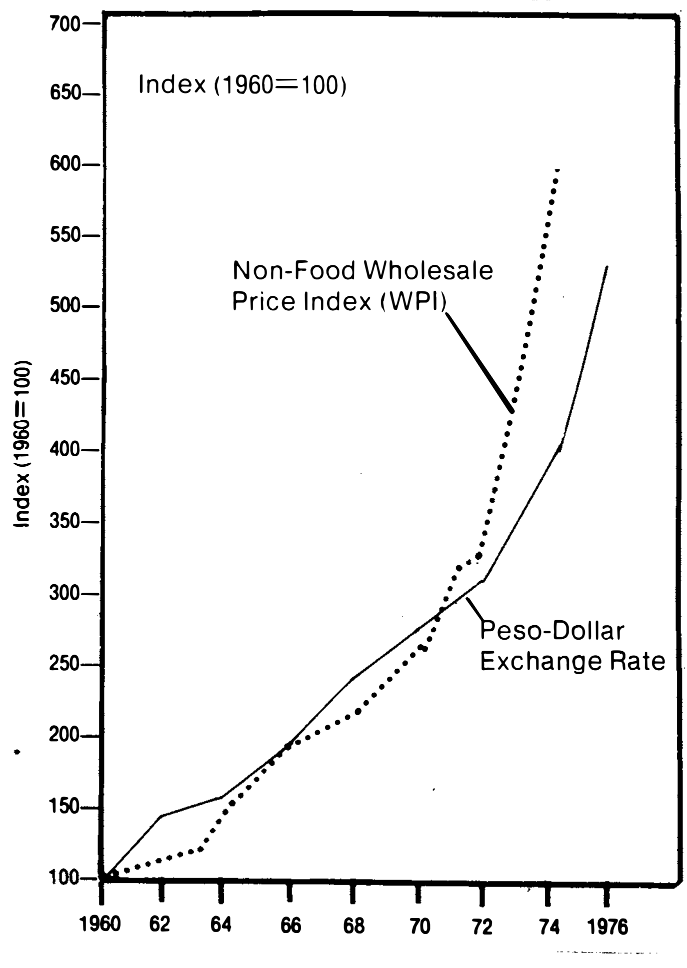

Table 1 — Percent Distribution Of Gross Domestic Product By Sector

(percentage of GDP)

	1968	1969	1970	1971	1972	1975
AGRICULTURE	29.0	28.6	27.7	26.9	26.5	32.3
INDUSTRY	18.8	19.1	19.2	19.6	20.1	21.7*
CONSTRUCTION	3.7	3.9	3.9	3.7	3.7	*
MINING	3.0	3.3	3.0	2.9	2.6	*
COMMERCE	15.7	15.8	15.9	16.1	16.2	16.6
TRANSPORTATION	5.8	6.0	6.2	6.3	6.3	6.1
OTHER	24.0	23.3	24.1	24.4	24.6	23.3
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0

* 21.7 INCLUDES ALL THREE CATEGORIES; INDUSTRY, CONSTRUCTION AND MINING

SOURCE: FEDESARROLLO (COLOMBIAN ECONOMIC RESEARCH INSTITUTE)

tricity is turned off for a full 12 hours a day, from 6 am to 6 pm. Water supplies are cut off for 8 hours, from 8 am to 4 pm. Neither the press nor the local officials have as yet released any estimates of the damage to production caused by such drastic rationing, nor of the number of workers idled, but losses are considered immense.

The scarcity of potable water has begun to take its toll on the population as well. The water rationing has forced many of the city's ghetto dwellers to resort to drinking the "black waters" out of open sewage ditches, and has also created horrendous sanitary conditions throughout the city, with people unable to wash themselves or their food. Energy cutoffs during the hot daytime have prevented food markets from providing adequate refrigeration. A reported 800 new cases of gastroenteritis are being discovered weekly in Medellin, with that number expected to grow exponentially as conditions worsen.

Cali

Cali, a city of close to one million, is suffering cutoffs of electricity and water supplies for eight hours a day. Gastroenteritis has become the number one disease. This city, located in Colombia's fertile agricultural heartland of the Cauca Valley, has been faced with severe food shortages for weeks. Housewives reportedly spend their entire day roaming from marketplace to marketplace in search of sugar, salt, coffee, cooking oil — even toilet paper — to no avail. Making matters worse is a three-week long shutdown of the region's slaughterhouses and butcher shops in a coordinated protest against the government-imposed price ceiling on meat. Newspaper columns praising the joys of eating fish have failed to console working class mothers who are unable to provide their children with adequate meals.

Barranquilla

The poverty-stricken Caribbean coastal cities of Barranquilla (700,000) and Cartagena (400,000) are suffering even worse conditions of collapse. The Barranquilla reservoir was discovered to be contaminated earlier this month and a slew of infant deaths has been traced to the use of those waters for making baby food. While unknown bacterial infestations are blamed for the tragedy, the city's inhabitants report that garbage collection, health facilities, sewage disposal, etc., are virtually non-existent. Medical authorities in the city have already reported numerous outbreaks of typhoid and hepatitis in addition to widespread gastroenteritis.

The nearby city of Cartagena is also without drinking water as the reservoir has dried up. In addition, the drastically-reduced water level in the port has turned Cartagena into what one newspaper termed "a cemetery of ships" as the barges and tankers which filled their holds with goods for export weeks ago are still unable to leave the port, idling more than 10,000 dock workers.

Pacific Coast

Perhaps suffering the worst is the Pacific coastal region of Colombia. This historically-underdeveloped region has been struck with an uncontrolled epidemic of malaria; several people are already reported dead from the disease and the small amounts of medicine available in the bankrupt area are considered useless against the unusually resistant strain. Several cases of malaria have also appeared in Cali following an invasion of wasps and mosquitoes into that city from the infected Pacific coast. The neighboring regions of Tolima and Narino, almost totally without water supplies, are making preparations for expected outbreaks of disease.

Food Shortages

The combined effect of the drought and underproduction of several crops has led to severe food shortages in many of Colombia's cities. The shortages have been artificially aggravated by market manipulations, transportation foul-ups, provoked strikes within the distributive and commercial sectors, and large-scale hoarding. This has fostered widespread desperation on the part of a population which is already suffering a marked deterioration in its living standards. That desperation, exacerbated by a flurry of articles in the national press warning of worse crises to come, has been manipulated by the government for the purpose of imposing a hyperinflationary spiral of price increases intended to gouge working class incomes.

The most blatant example of this strategy was demonstrated last month when the country's notorious shortage of sugar, allegedly due to underproduction, was solved with the stroke of a pen. An agreement between the sugar producers and the government to raise the price of sugar some 70 percent — half-way between the officially-established price and the black market price — was given front-page coverage in all the national press under the headline "Sugar Shortage Ended!" A renewed flow of sugar into urban and rural marketplaces was immediately guaranteed by the government. Within the week, the same "solution" was being mooted within official circles for meat, salt...etc. In Colombia, releasing price controls is defended as guaranteeing normal commodity supplies. In Argentina, where this same policy has been pursued by the military dictatorship since it came to power one year ago, economists have described the measures as "officializing the black market."

Investment Crisis In Mexican Industry

MEXICO

For the first time in almost 25 years, the growth of the Mexican economy in 1976 failed to match population increase. Accustomed to annual growth rates of 6 percent or higher, the country was stunned when the Banco de Mexico announced last month that Gross Domestic Product grew only 2 percent last year, well below the population increase of 3.5 percent. Further, the figure of 2 percent reflected a few sectors of extraordinary growth such as oil and refining (9.0 percent) and electrical energy (8.2 percent); consumption goods production increased only 1.5 percent, and investment goods declined 5.0 percent.

These dismal figures were the product of a first half which showed growth on the order of 5 percent combined with a second half in which overall industrial production declined in absolute volume (Table 1). The $4 billion taken out of the country by right-wing businessmen as an economic warfare measure against then-president Luis Echeverria and the 40 percent devaluation of the Mexican peso announced August 31 contributed greatly to this downturn.

But longer-term factors were equally important. Private-sector investments stagnated from at least 1973 on, after historically providing a critical component of economic growth. The state tried to compensate for this by vastly increasing its investments, but this was not sufficient to prevent declining rates of overall industrial growth during the latter portion of Echeverria's six-year term. During these same years, a rising percentage of total financial inputs were absorbed by debt service, reducing the financing available for productive investment. Rising inflation has been one important consequence.

There are two irreconcilable strategies now in circulation of how to deal with the crisis in the Mexican economy. One, that of the New York banks, the International Monetary Fund (IMF), and newspapers like the *New York Times,* urges maximum exploitation of Mexico's newly announced oil reserves to pay the foreign debt while essentially ignoring the rest of the economy. The IMF signed a letter of intent with Mexico at the beginning of 1977 which focused on slowing growth and expenditures in order to maintain balance of payments stability. Leonard Silk, the *New York Times*' international financial analyst, reported March 24 that ". . . the job of stopping inflation might mean no growth or negative growth for Mexico for a few years . . ." The March 9 *Business Latin America,* newsletter of the consulting firm Business International, wrote hopefully that "If pol-

Table 1—Volume of Industrial Production

(% VARIATION OVER SEMESTER PREVIOUS LEVELS)

	% CHANGE 1976/1975	% CHANGE 1ST HALF 1976 OVER 1ST HALF 1975	% CHANGE 2ND HALF 1976 (E) OVER 2ND HALF 1975
MANUFACTURING	1.9	4.3	-0.4
OIL AND DERIVATIVES	9.0	13.3	5.1
PETROCHEMICAL	3.5	13.1	-4.7
MINING	3.5	0.5	5.5
ELECTRICAL ENERGY	8.2	9.5	6.9
CONSTRUCTION	0.0	4.1	-3.9
GENERAL	2.3	4.7	-0.2

(E) ESTIMATES BASED ON JULY-NOVEMBER PERIOD

SOURCE: BANCO DE MEXICO